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CONSTRAINTS TO THE EFFECTIVE DEVELOPMENT OF THE ENTREPRENEURIAL CAPABILITIES AND PERFORMANCE OF AFRICAN PUBLIC ENTERPRISES

by
ECA Secretariat

Constraints to the effective development of the entrepreneurial capabilities and performance of African Public Enterprises

1. Introduction

Since the attainment of independence, African governments have been making increasing use of their public enterprises to promote development in the national economy. The scope of these enterprises, often referred to as parastatals, their numbers, variety and complexity of operation has in like manner increased considerably over the years. Today, public enterprises operate in virtually all sectors of the economy - agriculture, banking, commerce and industry, insurance, transportation, tourism and mining and it would appear that the corporate form of conducting public business has now become a permanent feature in all African countries.

Exact and up-to-date figures of public enterprises in Africa are hard to come by particularly as there does not appear to be any consensus among African countries as to what precisely constitutes a public enterprise; indeed what may be regarded as a public enterprise in one country may not be so regarded in another country. For the purpose of this paper, public enterprise or parastatal refers to institutions or organizations which are wholly owned by the public or in which the public holds a majority interest, whose activities are of a business nature and which provide services or produce goods and have their own district management. This definition would excludes organizations like Sports Councils, University Councils, Hospital Boards, etc. and appears to be in line with UN General Assembly resolution No. 3488(XXX) of 12 December 1975 in which the Secretary-General was requested to prepare a study on the role of the public sector in enhancing the development of developing countries. It was specifically stated in the resolution that the study should focus "on those entities producing traded goods and services which the government and its agencies own and control (including partial ownership) if this is sufficient to give effective control ....." 1/.

Reverting to the question of numbers, a few examples may suffice to illustrate the proliferation of these institutions in African countries. Before 1966, there were four development corporations in Nigeria each of which had nearly forty subsidiaries; in addition there were other Federal and State owned companies making a total of over 250. 2/ It is conservatively estimated that today these figures have increased more than ten-fold.

In Kenya there are about sixty six parastatals and country-wide co-operatives; this figure does not include government owned companies or the subsidiaries of parastatals. Parastatals are now a major factor in the sphere of employment. Indeed it is estimated that Kenyan parastatals now employ as many people as the civil service itself, if

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1/ UN Economic and Social Council Doc. E/5985 of 24 May 1977.

2/ S.G. Odia - Personnel Management Problems of African Public Enterprises paper submitted to the ECA Regional Seminar on Technical and Managerial Problems of African Public Enterprises, Yaounde, 7-14 August 1978.

teachers are excluded. 3/ In the United Republic of Cameroon, the state owned Société Nationale d'Investissement (S.N.I.) alone has about 83 public enterprises and subsidiaries with foreign and national entrepreneurs and provides, among other things, guidance to prospective investors. In Zambia the government makes nearly all its investments in industrial and commercial undertakings through the Industrial Development Corporation and its subsidiary companies. Zambian parastatals provide over-all employment to about 140,000 workers or 30% of the national work force in formal employment. The value of the total assets of Zambian parastatals at the end of 1976 was K3026 million; this figure had risen to K3451 million by 1977 4/. When all these issues are brought together and viewed as a whole, there is little doubt that the contribution of the parastatal sector in the economy of African countries is now a major factor to reckon with.

2. Role and Functions of African Public Enterprises

The degree and extent of government involvement in economic ventures through public enterprises is generally determined by ideological considerations, historical factors and the state of economic development. Thus in countries which operate socialist type economies, the general pattern appears to be one of elimination or substantial reduction of the private sector. On the other hand in capitalist oriented economies, public enterprises appear to be concentrated in the traditional and well established fields of public utilities as well as the so-called "commanding heights of the economy" leaving a substantial proportion of activities in other fields to private enterpreneurs. Whilst in the majority of cases the main criterion for the establishment of public enterprises is multidimensional a major rationale for their creation is to gain control of key sectors of the economy in order to play an effective role in the economic and social development of the country.

Proliferation of public enterprises has also occurred in response to an absence or weakness of entrepreneurial class and lack of adequate domestic sources of private capital for investment. 5/ As a result, African governments have now become either sole or part owners of entrepreneurial ventures such as Iron and Steel complexes, petrochemical plants, cement factories, petroleum refineries, textile mills and breweries. Others are running air and shipping lines as well as bus services. These institutions are expected, among other things, to generate profits and surpluses to be ploughed back into the economy to expand production i.e. they are expected to build up capital for re-investment and must therefore operate on strictly business lines. The entrepreneurial role of African public enterprises is therefore a very crucial are in the bid to attain accelerated, self-sustaining and mutually reinforcing economies all over the continent.

3/ Report and Recommendations of the Committee appointed by His Excellency Hon. Daniel Arap Moi, President of the Republic of Kenya to conduct a review of Statutory Boards, Government Printer Nairobi, p.2

4/ Republic of Zambia - Third National Development Plan 1977-83. Government Printer Lusaka, p.415.

5/ Changes and Trends in Public Administration and Finance for Development - Second Survey - 1977-1979. UN Publication Sales E.82 11.H.I.ST/ESA/SER.E1/27 p.5

Whilst some African public enterprises have performed very well, it is also equally true that the history of several others is replete with failure and poor performance. Some of them have not lived up to the lofty goals which inspired their creation; others have only been kept going by the infusion of massive government subsidies, the writing off of substantial bad debts and preferential tax treatment. In many cases the rate of return of some public enterprises has been much lower than the cost of financing them on the capital market. On the whole they have not been able to deal effectively with unemployment problems and income disparities.

The performance profile of public enterprises has been relatively poor when compared with the private sector. For example the findings of a national survey carried out in 1975 by the Centre for Management Development in Nigeria revealed that the management performance of public enterprises was 12.5% lower than that of private enterprises. Public enterprises received a performance rating of 23% below that of the private sector in financial management and control. In other specific functions like personnel, marketing, production, materials management, organization and supervision, public enterprises received performance ratings of 13% to 20% below that of the private sector. This picture is not only true of Nigeria; it is also true of many African countries. 6/

Commissions of enquiry appointed in some African countries to probe the affairs of parastatals have revealed instances of mismanagement, gross irresponsib y and corruption on the part of public officials as well as unfair and unwarrante. interference in their affairs by politicians. Indeed as one report succintly points out:

> "while there are notable exceptions, there is clear evidence of inefficiency, financial mismanagement, waste and malpractices in many parastatals.Furthermore, because of the confusion which exists, it is becoming increasingly difficult to say where responsibility for inefficiency or waste lies and there is a growing tendency to attempt to shift blame to others when things go wrong. A confused situation of this sort can be exploited in many ways e.g. to resist public accountability and to engage in corruption and nepotism. 7/

This situation is not unique to the country to which the report refers. It abounds all over the African continent.

6/ S.G. Odia - Personnel Management Problems of African Public Enterprises - paper presented at ECA Regional Seminar on Technical and Managerial Problems of African Public Enterprises, Yaounde, 7-14 August 1978.

7/ Report and Recommendations of the Committee appointed by His Excellency the President of the Republic of Kenya to conduct and review statutory Boards, Government Printer, Nairobi.

3. Constraints inhibiting effective performance

The constraints underlying the failures and difficulties of African public enterprises are many, varied and complex and can hardly be dealt with in their entirety in a paper of this nature. Furthermore even though many of the problems are basically the same, there are variations from country to country as well as between different sectoral public enterprises. A few critical constraints are outlined below and they are illustrative rather than exhaustive. Broadly speaking, these constraints are of a dual nature i.e. those that relate to the environment in which the enterprise operate and are by and large beyond its control; secondly there are those constraints inherent within the organization itself ie. internal constraints.

(a) External Constraints

(i) The current world situation coupled with the inexorable pace of modern technology as well as the increasing complexity of global economic and monetary systems provide a dynamic and extremely volatile background in which public enterprises operate. The current world recession, the fall in commodity prices as well as the protectionist tarrifs and other measures adopted by developed countries inevitably affect produce marketing boards and mining companies which are no longer able to operate economically and are compelled to reduce their work force. The heavy debt burden which many African countries have had to bear compounded with other monetary problems has resulted in an acute shortage of foreign exchange so that many public enterprises are unable to import vital equipment and spare parts from abroad. In consequence some enterprises have been compelled, through contractual arrangements to procure inappropriate technologies, absolete plant designs and equipment from foreigners who either wanted to exploit or were unfamiliar with local conditions and circumstances; the results have, to say the least been catastrophic. These and other factors underlie the urgency for Africa to minimize its dependence on external sources and foreign agents, for the evolution of a strategy based on the principle of self-reliance and the use of indigenous raw materials and other factor inputs to produce goods and services needed for local consumption.

(ii) For either political or social reasons there has been an implanned and unco-ordinated proliferation of public enterprises in African countries. The goals and functions of some of them are not clearly defined and even conflict in certain cases. This has resulted in jurisdictional conflicts, duplication of efforts, and disipation of scarce resources. This situation has in addition created formidable problems of planning and control. In particular there has been insufficient clarity regarding the distinction between social welfare and economic goals of certain enterprises.

Many public enterprises have a weak financial base; others have been saddled with responsibilities far in excess of available resources. In fact undercapitalization has been a major constraint of several African public enterprises. Accumulated loses and the reluctance or inability of share-holders including government to increase share capital have created a most unsatisfactory financial position.

The financial guidelines of some enterprises are in some cases not well spelt out; there should be a clear indication as to when the enterprise should cover its costs and when it should begin to make profits,, including rates of return. The procedure for obtaining government grants is often quite protracted while borrowing powers may be limited and circumscribed. Most credit institutions insist on government guarantees for loans. Since most governments generally provide an upper limit to their guarantee, this naturally restricts the number of public enterprises which can obtain such loans. Thus a carefully developed programme of a financially viable enterprise may be starved of funds merely because it joined the queue at the wrong time. Indeed even the right to dialogue with lending institutions must on ocassion be foregone because another enterprise or agency had previously opened negotiations with the lending institution, 8/

Closely allied to the problem of capital is the issue of pricing. Some African governments quite often arbitrarily and unilaterally fix or alter prices of goods and services for social or political reasons. As a result, several enterprises are compelled to charge uneconomic prices for goods and services which bear very little relationship to increases in the cost of production. The pricing mechanism in Africa has been used as a political weapon and is generally introduced at the most expedient period which may not necessarily correspond with the most economically judicious period.

(iii) Another type of major constraint confronting African public enterprises relates to the issue of authority to operate and this involves the level of political control as well as the degree of autonomy they should be accorded. The issue of autonomy vis-a-vis control is a very thorny one and many African governments have so far not been able to strike a balance between the two. Indeed as a UN Expert Group meeting pointed out recently:

> " .....although it is the legitimate function of governments to provide over-all policy direction to and co-ordinate the activities of public enterprises, in general the control exercised by governments is excessive, extensive and rigid. This control often extends, inter alia to the appointment of top managers, pricing policies, project evaluation, levels of investment and sources of financing ..... wage policies, industrial relations including every day (current) production management and expenditure ..... it is not uncommon for political considerations to out weigh objective considerations ..... Complex and time-consuming processes adopted for project evaluation and for financing have eventually resulted in cost over-runs and delays in implementation ....."9/.

If parastatals are to discharge their functions effectively they have to be fairly autonomous and should be given enough latitude to take decisions within the overall policy laid down by government and the requirements of the national development plan.

8/ Marshall Hall - Some Management Problems in Public Enterprises Paper prepared for CAFRAD Seminar Organized with the Government of Kenya November/December 1976.

9/ Report of the Sixth Meeting of Experts on the UN Programme in Public Administration and Finance, Geneva, 10-19 March 1982, Doc. E/1982/52/Add.1 page 23.

They are seldom allowed to do so. To aggravate matters many parastatals are saddled with Boards of Directors often appointed for political reasons instead of competence, business acumen or other relevant experience which tend to become a liability to the enterprise. Usually there is friction between the board and the top management as well as between the latter and the supervising ministries including undue interference in the day to day affairs of the enterprise. Such interference often has its roots in the lack of proper understanding as to the nature or relationship between the enterprise and government and has crippling effects on productivity.

(b) Internal Constraints

(i) Inefficient management

African public enterprises are plagued with multifarious managerial problems ranging from organizational and operational issues, low capacity utilization, poor project appraisal, lack of skilled manpower as well as faulty procurement and supplies management systems. Because many public enterprises grew out of government departments, there has been a tendency to model them on government departments and to saddle them with civil service rules and procedures which are generally unsuitable for business ventures. Work procedures are often cumbersome, chains of command obscure and work distribution uneven. Such a situation naturally emasculates initiative, dampens enthusiasim and affects productivity. This is particularly the case with rules for financial control which should be more in accord with operational practices related to business circumstances.

It is not unusual to find in the public enterprises of many African countries, complete lack of provision for planning, research and development. Comprehensive corporate planning is lacking. Resource allocation is often based on generalized estimates rather than detailed costing; needless to say that such an unrealistic approach can result in unforseen shortages of critical inputs caused by faulty resource budgeting practices. Poor planning has also resulted in low capacity utilization of plant or even in capacities which are in excess of foreseable needs. Indeed many African public enterprises embark on projects with inadequate or hardly any feasibility studies; often there is a complete absence of market research for the product or service of a new venture. Research is equally vital in identifying production constraints and for planning new products, services and related investments.

(ii) Human Resource Development

Many African public enterprises suffer from an acute shortage of skilled, trained and qualified manpower. This deficiency is both quantitative and qualitative and is particularly critical at the top and middle levels. Naturally this affects effective performance and productivity. Indeed low productivity is a common characteristic of many African public enterprises. Productivity depends on the optimum combination and development of human, capital and natural resources. Human resources are crucial as they form the fulcrum on which everything else devolves; they are the key for the unlocking and mobilizing the other resources and must therefore be fully and effectively developed and utilized if productivity goals are to be realized. 10/

10/ Promoting Productivity through Motivation of Staff Paper presented by Professor Robert Abramson to the Seminar for Management Personnel in Parastatal Organizations, Mombassa - Kenya 28 Nov.-11 Dec. 1976 organized by CAFRAD in collaboration with the Government of Kenya, p.3

Staff development policies in African public enterprises are either inadequate, non-existent or dealt with in an ad hoc manner. This is a very serious constraint. Comprehensive policies should be introduced as a matter of urgency and should be geared towards the full development and growth of human resources, to enable the staff to utilize their capacity fully and apply their knowledge and experience to enhance productivity. Personnel administration is a key factor in this regard and should be oriented to motivate staff. This can be achieved by fair recruitment policies, promotions and realistic job descriptions for each post. These policies should incorporate a clearly defined programme, allowing for performance improvement through job-related training; the latter should be matched by satisfactory and relevant placement to ensure optimum performance. In a nut-shell, African public enterprises need to embark on a programmed investment in manpower development.

(iii) Problem Solving Capabilities

Many African public enterprises lack the internal capability of identifying and analysing their own problems; decision-making skills are inadequate and consequently they rely to a great extent on external consultants to diagnose managerial problems and devise appropriate remedial measures instead of developing self-reliance and strengthening their own internal problem-solving capability. Apart from the high cost involved in paying for external consultancy services, especially those from abroad quite often the solutions proposed have proved impracticable or irrelevant. It is felt that self-reliance should be encouraged by improving in-house capabilities of internal consultancy systems. This can be reinforced by the installation of adequate management accounting and operational control systems as well as mechanisms for measuring costs against performance and productivity including performance appraisal and evaluation systems.

4. Conclusion

Africa has the unenviable reputation of being the least developed of all the developing regions of the world. It has the lowest income per head of population, the lowest literacy rates as well as the largest number of land locked and island countries. Thirteen African countries have per capita incomes of less than $200 per annum; twenty three between $500 and $2000. Between 1960 and 1980 the rate of economic growth was only an average of 4.8%. Many African countries are today confronted by acute economic problems and find it difficult to organize their planning requirements on a rational basis. Many of them are too small to sustain viable economic activities and without economic and technical co-operation very little can be achieved single-hardedly by the majority of African States. The region therefore needs a strategy that will reflect its own social and economic realities and which would facilitate accelerated self-sustaining growth and development.

Indigenous entrepreneurship, both public and private are critical in the attainment of economic self-reliance and national prosperity; indeed both should enjoy a symbiotic relationship. In view of the constraints confronting private indigenous entrepreneurship including shortage of capital, shortage of skilled manpower and lack of modern business acumen, it is obvious that public indigenous entrepreneurship will have to play the

predominant role in the development effort. This paper attempts to high light some of the constraints to the effective development of that entrepreneurship. As pointed out earlier, the constraints outlined in this paper are far from exhaustive but it is hoped that they will form a basis for discussion by participants. The paper does not attempt to propose remedial measures except in a few instances, as these are adequately dealt with in other papers presented to the conference.